

**REPORT OF THE AUDIT OF THE
GRAVES COUNTY
SHERIFF**

**For The Year Ended
December 31, 2008**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817
TELEPHONE (502) 564-5841
FACSIMILE (502) 564-2912**

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE GRAVES COUNTY SHERIFF

**For The Year Ended
December 31, 2008**

The Auditor of Public Accounts has completed the Graves County Sheriff's audit for the year ended December 31, 2008. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees decreased by \$38,618 from the prior year, resulting in excess fees of \$20,112 as of December 31, 2008. Revenues decreased by \$31,789 from the prior year and expenditures increased by \$6,829.

Debt Obligations:

Total debt principal as of December 31, 2008, was \$114,412. Future collections of \$120,403 are needed over the next two years to pay all debt principal and interest.

Report Comments:

- The Sheriff's Office Lacks Adequate Segregation Of Duties
- The Sheriff Should Remit \$11,304 In Excess Fees To The Fiscal Court

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT	1
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS	3
NOTES TO FINANCIAL STATEMENT	6
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	13
COMMENTS AND RECOMMENDATIONS	17



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Tony Smith, Graves County Judge/Executive
The Honorable John L. Davis, Graves County Sheriff
Members of the Graves County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the Sheriff of Graves County, Kentucky, for the year ended December 31, 2008. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the Sheriff for the year ended December 31, 2008, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated August 14, 2009 on our consideration of the Graves County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Tony Smith, Graves County Judge/Executive
The Honorable John L. Davis, Graves County Sheriff
Members of the Graves County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff's Office Lacks Adequate Segregation Of Duties
- The Sheriff Should Remit \$11,304 In Excess Fees To The Fiscal Court

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Graves County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen
Auditor of Public Accounts

August 14, 2009

GRAVES COUNTY
JOHN L. DAVIS, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2008

Revenues

State Grants

Pennyrile Drug Task Force	\$ 13,221		
Law Enforcement Service Fee	9,006		\$ 22,227

State - Kentucky Law Enforcement Foundation Program Fund			28,742
--	--	--	--------

State Fees For Services:

Finance and Administration Cabinet	39,155		
Cabinet for Health and Family Services	21,022		
Fugitive Returns	14,646		
Sheriff Security Service	40,187		115,010

Circuit Court Clerk:

Fines and Fees Collected	16,694		
Court Ordered Payments	2,448		19,142

Fiscal Court			160,490
--------------	--	--	---------

County Clerk - Delinquent Taxes			4,977
---------------------------------	--	--	-------

Commission On Taxes Collected			371,597
-------------------------------	--	--	---------

Fees Collected For Services:

Auto Inspections	16,905		
Accident and Police Reports	4,545		
Serving Papers	65,081		
Carrying Concealed Deadly Weapon Permits	3,600		90,131

Other:

Returned Check Fee	740		
Extra Security	1,125		
Restitution	1,209		
Jury Meals	1,557		
Insurance Claim Payment	8,182		
Telecommunications Tax	2,592		
Penalty Fees	44,152		
Miscellaneous	15		59,572

The accompanying notes are an integral part of this financial statement.

GRAVES COUNTY
 JOHN L. DAVIS, SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2008
 (Continued)

Revenues (Continued)

Interest Earned		\$	2,872
Borrowed Money:			
State Advancement	\$	160,000	
Bank Note		10,000	170,000
			<hr/>
Total Revenues			1,044,760

Expenditures

Operating Expenditures:

 Personnel Services-

Deputies' Salaries	\$	467,953	
Part-Time Salaries		27,886	495,839
		<hr/>	

 Employee Benefits-

Employer's Share Social Security			40,955
----------------------------------	--	--	--------

 Contracted Services-

Contracted Labor		20,002	
Computer Service		385	20,387
		<hr/>	

 Materials and Supplies-

Office Materials and Supplies		8,060	
Uniforms		3,848	11,908
		<hr/>	

 Auto Expense-

New Vehicle		19,990	
Gasoline		64,894	
Maintenance and Repairs		21,698	106,582
		<hr/>	

 Other Charges-

Dues		936	
Postage		9,012	
Transport		13,210	
Jury Meals		1,647	
Vehicle Registration		15	
K-9 Expense		1,207	
Court Ordered Payments		2,408	
Conventions and Travel		1,386	
Miscellaneous		860	30,681
		<hr/>	

The accompanying notes are an integral part of this financial statement.

GRAVES COUNTY
 JOHN L. DAVIS, SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2008
 (Continued)

Expenditures (Continued)

Debt Service:

State Advancement	\$	160,000	
Short Term Note		10,000	
Long Term Note		52,940	
Interest		<u>7,236</u>	\$ 230,176

Total Expenditures			<u>\$ 936,528</u>
--------------------	--	--	-------------------

Net Revenues		108,232
Less: Statutory Maximum		<u>84,595</u>

Excess Fees		23,637
Less: Training Incentive Benefit		<u>3,525</u>

Excess Fees Due County for 2008		20,112
Payment to Fiscal Court - March 6, 2008		<u>18,937</u>

Balance Due Fiscal Court		<u><u>\$ 1,175</u></u>
--------------------------	--	------------------------

GRAVES COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2008

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2008 services
- Reimbursements for 2008 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2008

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

GRAVES COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2008
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.17 percent for the first six months and 13.50 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Graves County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Graves County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2008, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

GRAVES COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2008
(Continued)

Note 4. Note Payable

The Graves County Sheriff's Office is liable for a secured note payable to the First National Bank in the amount of \$114,412. The purpose of the note was to refinance a bank note from the 2006 calendar year, which was used to purchase new police vehicles in 2006. The note matures in three years and the interest rate is 5 percent. The Graves County Sheriff's Office was in compliance with the terms of the agreement as of December 31, 2008. Future principal and interest payments are as follows:

Year Ending	Scheduled Principal	Scheduled Interest
2009	\$ 55,728	\$ 4,394
2010	58,684	1,597
	<u>\$ 114,412</u>	<u>\$ 5,991</u>

Note 5. Special Fund

The Graves County Sheriff's Office maintains a separate account for donations and other miscellaneous reimbursements. The beginning balance of this account was \$4,932. During calendar year 2008 receipts were \$13,767 and expenditures were \$4,353 leaving an ending balance of \$14,346 as of December 31, 2008.

Note 6. Payroll Withholding Fund

The Graves County Sheriff maintains a Community Activities Fund established January 5, 2006. Receipts result from payroll withholdings from employees. The funds are disbursed for payroll taxes, Christmas Club, United Way, flowers, and miscellaneous items. The beginning balance of this account was \$1,839. During the year, receipts were \$146,421 and expenditures were \$145,564 for the calendar year 2008. The balance at December 31, 2008 of the Community Activity Fund was \$2,696.

Note 7. Forfeiture Fund

The Graves County Sheriff maintains a Forfeiture Fund established by an order of the Circuit Clerk in 2006. The account is to be funded by receipts from forfeiture of money, forfeiture of property, court ordered payments from individuals, and interest received on deposits of forfeiture funds. The funds are to be used for supplies, equipment, vehicles, and drug awareness programs. The beginning balance of the account was \$16,523. During the calendar year 2008, receipts were \$76,987 and expenditures were \$19,985. The balance of the Forfeiture Fund at December 31, 2008 was \$73,525.

Note 8. Grants

During calendar year 2008, the Graves County Sheriff's Office participated in state grant programs of which the activity was accounted for in the Fee Account. The Sheriff's Office was in compliance with all related regulations and grant agreements as of December 31, 2008.

GRAVES COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2008
(Continued)

Note 9. Kentucky Law Enforcement Foundation Program Fund

The Graves County Sheriff's Office participates in the Kentucky Law Enforcement Foundation Program Fund (KLEFPF). This program, administrated by the Kentucky Justice Cabinet, is designed to provide adequate training to the Sheriff's deputies. During the year, the Graves County Sheriff's Office received \$28,742 from this program.

THIS PAGE LEFT BLANK INTENTIONALLY

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Tony Smith, Graves County Judge/Executive
The Honorable John L. Davis, Graves County Sheriff
Members of the Graves County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Graves County Sheriff for the year ended December 31, 2008, and have issued our report thereon dated August 14, 2009. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Graves County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting which is a basis of accounting other than generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comments and recommendations to be a significant deficiency in internal control over financial reporting.

- The Sheriff's Office Lacks Adequate Segregation Of Duties



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Graves County Sheriff's financial statement for the year ended December 31, 2008, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- The Sheriff Should Remit \$11,304 In Excess Fees To The Fiscal Court

The Graves County Sheriff's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the Sheriff's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Graves County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

August 14, 2009

COMMENTS AND RECOMMENDATIONS

GRAVES COUNTY
JOHN L. DAVIS, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2008

STATE LAWS AND REGULATIONS:

The Sheriff Should Remit \$11,304 In Excess Fees To The Fiscal Court

As of December 31, 2008, the Sheriff owed excess fees of \$11,304, \$10,129 for calendar year 2007 and \$1,175 for calendar year 2008. The additional excess fees are due to the Sheriff disbursing money from the prior year's fee account to the next year's fee account and failing to reimburse the original year so that the money could be paid to Fiscal Court and the account years be officially closed. KRS 134.310(6) states "the sheriff shall pay to fiscal court any fees, commissions, and other income of his office, including income from investments, which exceed the sum of his maximum salary as permitted by the Constitution and other reasonable expenses, including compensation for deputies and assistants". We recommend the Sheriff comply with KRS 143.310(6) by paying Fiscal Court all excess fees currently due. Since the additional excess fees have ultimately ended up in the 2009 fee account, the Sheriff should pay the \$11,304 to the Fiscal Court from this account. In the future, the Sheriff should abstain from such activity, unless he has a clear plan to reimburse the prior year so excess fees can be paid timely.

Sheriff's Response: Have made attempts to solve this problem.

INTERNAL CONTROL – SIGNIFICANT DEFICIENCY & MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation Of Duties

The Graves County Sheriff's office lacks adequate segregation of duties. Due to a limited number of staff, the same deputy preparing the daily checkout sheet also prepares the daily deposit, takes it to the bank, and posts receipts to the receipts ledger. That deputy also posts expenditures to the disbursements ledger, prepares and has the ability to sign checks and performs the monthly bank reconciliation.

Segregation of duties over daily checkout procedures, deposit preparation, receipts posting, the preparation of checks, and disbursement posting is essential for providing protection from asset misappropriation and/or inaccurate financial reporting. If it is not possible to segregate all functions of the accounting process the implementation of compensating controls will help limit the severity of possible asset misappropriation and/or inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

To adequately protect against the misappropriation of assets, we recommend the Sheriff separate the duties of preparing the daily deposit from the preparation of the daily checkout, with the deputy preparing the daily checkout sheet accounting for the numerical sequence of issued receipts. Also, the preparation of disbursement checks should be separated from the posting of disbursements to the disbursements ledger and bank reconciliation. If these duties cannot be segregated due to a limited number of staff, then strong oversight should be provided to the employee or employees responsible for these duties.

GRAVES COUNTY
JOHN L. DAVIS, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2008
(Continued)

INTERNAL CONTROL – SIGNIFICANT DEFICIENCY & MATERIAL WEAKNESS:
(Continued)

The Sheriff's Office Lacks Adequate Segregation Of Duties (Continued)

We are recommending that the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff should periodically compare a daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. He could document this by dating and initialing the bank deposit, daily deposit, and receipts ledger.
- The Sheriff should compare the quarterly financial report to receipts and disbursements ledgers for accuracy. The Sheriff should also compare the salaries listed on the quarterly report to the individual earnings records. Any differences should be reconciled. The Sheriff could document this by dating and initialing the quarterly financial report.
- The Sheriff should periodically compare invoices to payments. The Sheriff could document this by dating and initialing the invoices.
- The Sheriff should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Sheriff could document this by dating and initialing the bank reconciliation and the balance in the checkbook.

Sheriff's Response: The official did not respond.

